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Chairman David Camp
Ways & Means Committee
341 Cannon Office Building
United States House of Representatives
Washington, DC 20515

Ranking Member Sander Levin
Ways & Means Committee
1236 Rayburn Office Building
United States House of Representatives
Washington, DC 20515

August 1, 2012

Re: Hearing on Tax Reform and the U.S. Manufacturing Sector

Dear Chairman Camp and Ranking Member Levin:

We are writing to thank you for holding this important hearing on Tax Reform and the U.S. Manufacturing Sector. In these challenging economic times, Congress should seize on every opportunity to facilitate U.S. manufacturing and to incentivize the purchase of U.S.-made goods. In this spirit, we would like to bring to your attention an initiative which would make U.S. manufactured goods more attractive to buyers overseas who are making finished goods and importing them back into the United States.

Chapter 98 of the U.S. Harmonized Tariff Schedule (USHTS) was created to avoid “double taxation” of U.S. goods since such goods are taxed already when they are produced in the United States. Chapter 98 allows for the value of the U.S. component to be subtracted from the dutiable value of a finished good which incorporates the U.S. component. Duties are still assessed on the foreign made good, but the U.S. component is exempted from the additional taxation. This system has been in place for nearly 50 years. It is WTO compliant. It encourages the use of more U.S. inputs on goods made abroad.

Unfortunately, while this benefit is available to many manufacturing sectors, it is narrowly limited with respect to textiles and apparel. Consequently, U.S. inputs such as cotton, as well as yarns and fabrics (with the limited exception of sewing thread and narrow elastic fabric), are not able to benefit from a Chapter 98 duty reduction. The implications of this are wide-reaching. Were Chapter 98 to be amended, we could expect benefits to flow into many sectors of the economy, and regions of the country, particularly to those not abundantly served by other manufacturing sectors.

Cotton is grown in 17 states in the U.S. including Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Mississippi, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia. U.S. cotton is in high

demand internationally, acknowledged as the best grade and most environmentally sustainable. Most of the U.S. cotton is exported – only about 3.5 million bales out of a total of 17 million are consumed in the U.S. Further industrialization of cotton in the U.S. – spinning into cotton yarn – could reap significant rewards for these local economies: every additional pound of cotton industrialized into yarn contributes up to 40 cents in additional economic activity. If cotton yarns are included in Chapter 98 programs, we anticipate an additional yarn production consuming an additional 1.5 billion pounds of cotton, or approximately \$6 billion per year in wages, power and insurance. One note about insurance, including domestic yarn producers in the Chapter 98 benefit will also lessen risk for cotton growers (and thereby insurance rates) who sell domestically; cotton growers face a higher risk of default when they sell to overseas yarn spinners.

In sum, the expansion of Chapter 98 to include all U.S.-made inputs would bring the following benefits to the U.S. economy and the manufacturing sector in particular:

- Encourage increased U.S. cotton production
- Encourage increased U.S. industrialization of cotton
- Encourage investment in new U.S. cotton yarn spinning plants
- Encourage use of U.S. origin cotton in making fabrics
- Encourage use of U.S. origin yarn and fabrics in making apparel overseas.
- Increase two-way trade through U.S. ports
- Reduce reliance of cotton exporter on GSM and other government programs (reducing the burden on taxpayers).

As mentioned above, the current system creates essentially a “double tax” on the U.S. producers of inputs that do not qualify for Chapter 98 duty reductions.

We believe there is an existing, elegant, usable provision that Congress can amend that will provide immediate benefits to U.S. companies that does not entail an overhaul of the tax code. We urge you to consider adopting this proposal – to reform Chapter 98 of the HTSUS to stop the “double taxation” of U.S. components (yarns and fabrics) contained in goods finished abroad.

Sincerely,

Jerry Cook
Vice President
Government and Trade Relations

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